

MIDLAND SCHOOL DISTRICT NO. 27-2

AUDIT REPORT

JUNE 30, 2007

MIDLAND SCHOOL DISTRICT NO. 27-2
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Midland School District No. 27-2
Haakon County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Midland School District No. 27-2, Haakon County, South Dakota, as of and for each of the years in the biennial period ended June 30, 2007, which collectively comprise Midland School District's basic financial statements, and have issued my report thereon dated September 10, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Midland School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies described in the accompanying schedule of current audit findings to be significant deficiencies in internal control over financial reporting. See finding number 2007-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

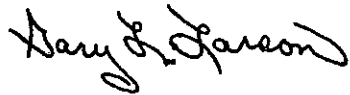
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiencies described above is a material weakness. See finding number 2007-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Midland School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Midland School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit Midland School District's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of Midland School District No. 27-2 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary L. Larson". The signature is written in a cursive, flowing style.

September 10, 2007

Gary L. Larson, CPA

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INDEPENDENT AUDITOR'S REPORT

School Board
Midland School District No. 27-2
Haakon County, South Dakota

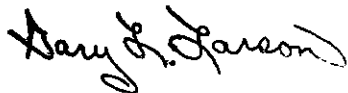
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Midland School District No. 27-2, Haakon County, South Dakota, as of and for each of the years in the biennial period ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Midland School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Midland School District No. 27-2 as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated September 10, 2007 on my consideration of Midland School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 73 through 96 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



September 10, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Midland School District 27-2's annual financial report presents our discussion and analysis of the School's financial performance during the two fiscal years ended on June 30, 2007. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were more than the governmental and business-type program expenditures by \$55,869 for FY07 and less than expenditures by \$177,493 for FY06.
- The total cost of the School's programs decreased by 39% which was primarily due to a favorable tuition rate for high school students sent to Kadoka School.
- The general fund reported a \$126,022 increase for FY07 and a \$33,274 deficit for FY06 primarily due to controlling expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the school is the Food Service Operation.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Required Components of Midland School District's Annual Financial Report

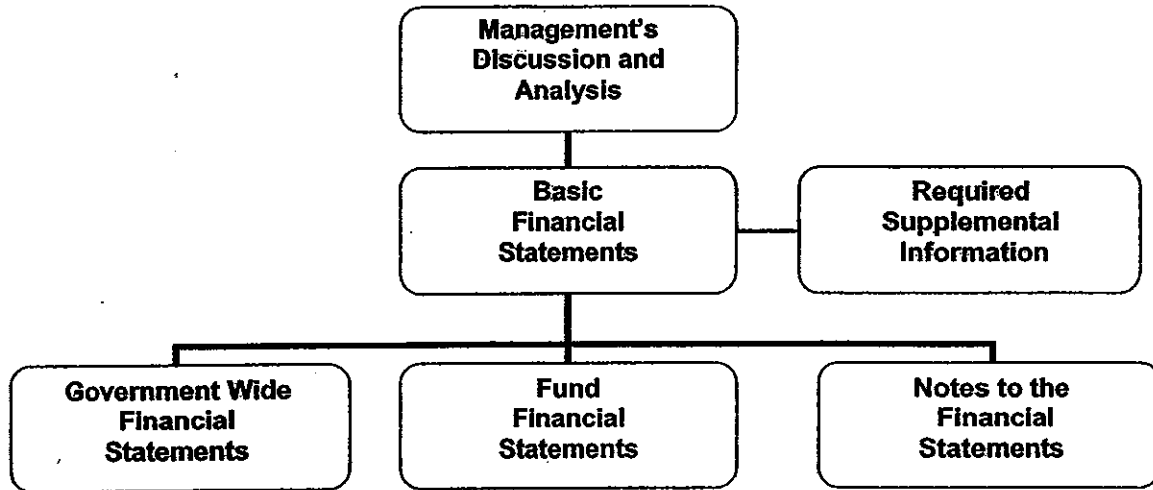


Figure A-2

Major Features of Midland School's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	General, including governmental, proprietary, fiduciary, and other governmental activities	General, including governmental, proprietary, and other governmental activities	General, including governmental, proprietary, and other governmental activities	General, including governmental, proprietary, and other governmental activities
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	*Statement of Fiduciary Net Assets *Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Bases	Accrual accounting and cost basis; historical costs	Modified accrual accounting and cost basis; historical costs	Accrual accounting and cost basis; historical costs	Accrual accounting and cost basis; historical costs
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
Type of Activity/Transaction Information	All government-wide expenditures during year regardless of whether capital is expensed or not	Activities for which costs are recovered through grants within the scope of the year expenditures within year or grants have been received or are expected to be received for year or subsequent years	All government-wide expenditures during year regardless of whether capital is expensed or not	All government-wide expenditures during year regardless of whether capital is expensed or not

Government-wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Increases or decreases in the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

- **Governmental Funds** – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the School.

- **Fiduciary Funds** – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's combined net assets increased as follows:

Table A-1
Midland School District 27-2
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2006	6/30/2007	6/30/2006	6/30/2007	6/30/2006	6/30/2007
Current and Other Assets	\$ 603,832	\$ 667,380	\$ 4,162	\$ 7,965	\$ 607,994	\$ 675,345
Capital Assets (Net of Depreciation)	272,686	214,093	3,509	3,202	276,195	217,295
Total Assets	876,518	881,473	7,671	11,167	884,189	892,640
Long-Term Liabilities Outstanding	1,760	648	-	-	1,760	648
Other Liabilities	214,915	169,486	877	-	215,792	169,486
Total Liabilities	216,675	170,134	877	-	217,552	170,134
Net Assets						
Invested in Capital Assets, Net of Related Debt	272,686	214,093	3,509	3,202	276,195	217,295
Restricted	224,699	216,533	3,285	7,965	227,984	224,498
Unrestricted	162,458	280,713	-	-	162,458	280,713
Total Net Assets	659,843	711,339	6,794	11,167	666,637	722,506
Beginning Net Assets	833,047	659,843	11,083	6,794	844,130	666,637
Increase (Decrease) in Net Assets	(173,204)	51,496	(4,289)	4,373	(177,493)	55,869
Percentage of Increase (Decrease) in Net Assets	-21.00%	8.00%	-39.00%	64.00%	-21.00%	8.00%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable have been reported in this manner on the Statement of Net Assets. The difference between the school's assets and liabilities is its net assets.

Changes in Net Assets

The School's total revenues for FY07 and FY06 totaled \$592,251.00 and \$707,411.00, respectively. (See Table A-2.) Approximately 57% of the School's revenue comes from property and other taxes, with approximately 22% coming from state aid. (See Figure A-3).

The School's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A-4)

Figure A-4a, Midland School Functional Expenditures
for Fiscal Year 2006

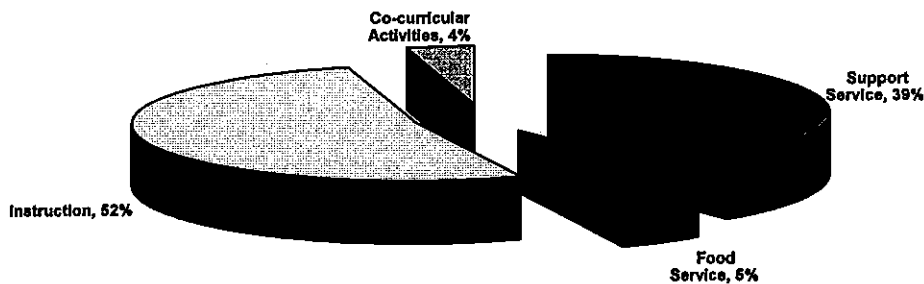


Figure A-4b, Midland School Functional Expenditures
for Fiscal Year 2007

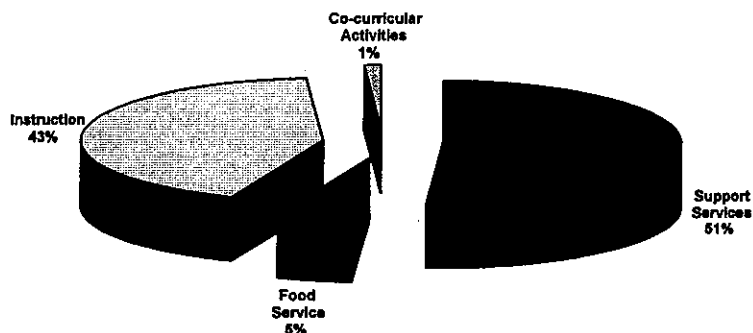


Figure A-3a, Midland School, Sources of Revenue for Fiscal Year 2006 (Percent of Revenue)

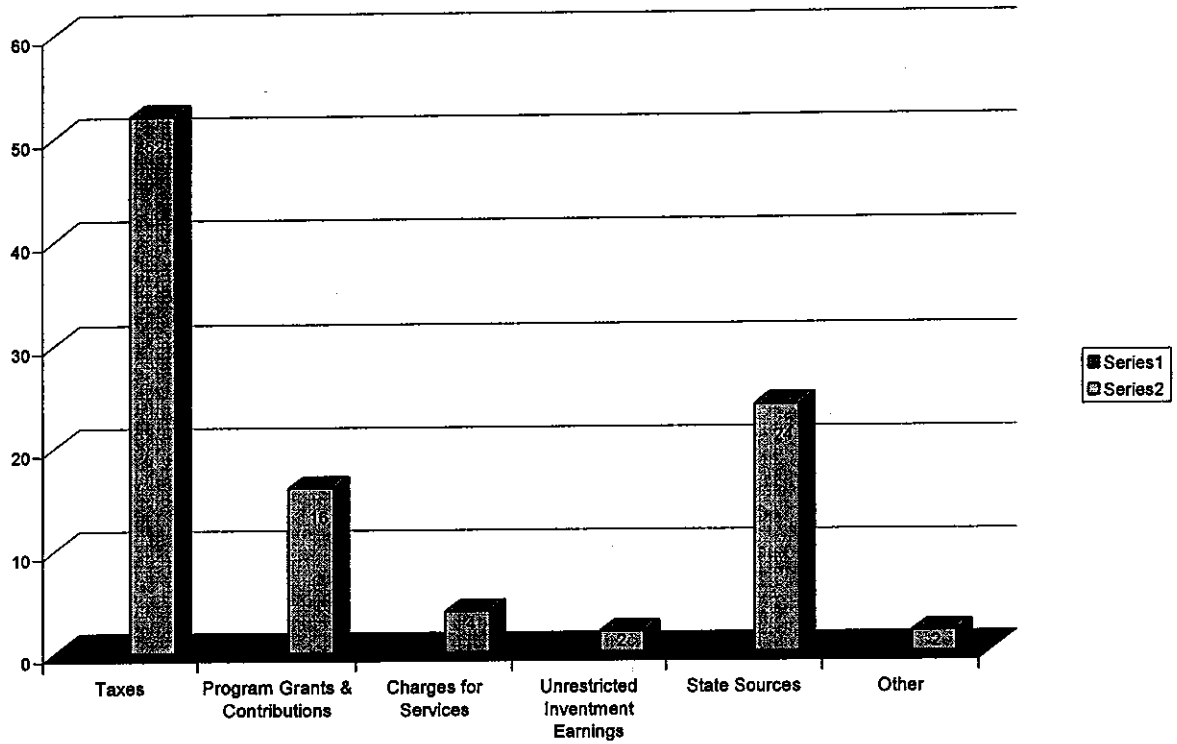
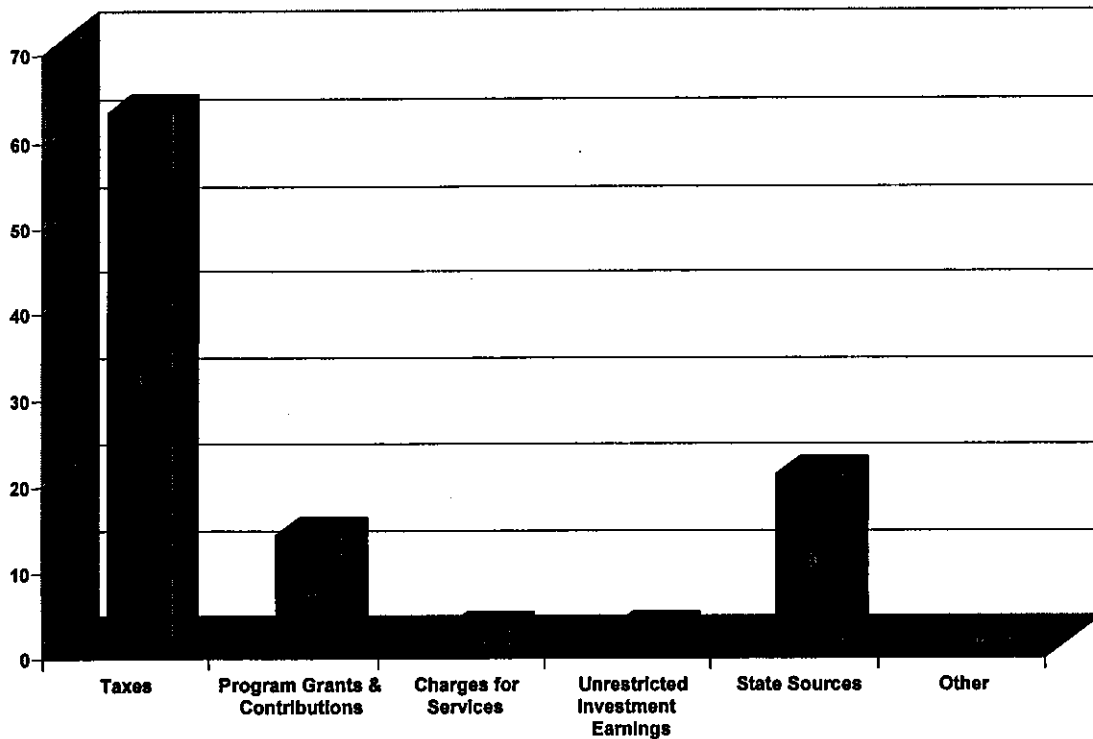


Figure A-3b, Midland School, Sources of Revenue for Fiscal Year 2007 (Percent of Revenue)



GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.

Table A-2
Midland School District 27-2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues						
Program Revenues						
Charges for Services	\$ 14,346	\$ 2,610	\$ 12,658	\$ 8,046	\$ 27,004	\$ 10,656
Operating Grants and Contributions	107,724	71,567	11,664	5,986	119,388	77,553
General Revenues						
Taxes	365,310	368,721			365,310	368,721
Revenue State Sources	167,367	118,226			167,367	118,226
Unrestricted Investment Earnings	10,897	11,568	2	2	10,899	11,570
Other General Revenues	17,443	5,525			17,443	5,525
Total Revenues	\$ 683,087	\$ 578,217	\$ 24,324	\$ 14,034	\$ 707,411	\$ 592,251
Expenses						
Instruction	\$ 464,922	\$ 230,758			\$ 464,922	\$ 230,758
Support Services	350,003	273,590			350,003	273,590
Nonprogrammed Charges						
Debt Service						
Cocurricular Activities	31,366	7,373			31,366	7,373
Food Service			38,613	24,661	38,613	24,661
Total Expenses	\$ 846,291	\$ 511,721	\$ 38,613	\$ 24,661	\$ 884,904	\$ 536,382
Excess (Deficiency) Before						
Transfers	\$ (163,204)	\$ 66,496	\$ (14,289)	\$ (10,627)	\$ (177,493)	\$ 55,869
Transfers	(10,000)	(15,000)	10,000	15,000	0	0
Increase (Decrease) in Net Assets	\$ (173,204)	\$ 51,496	\$ (4,289)	\$ 4,373	\$ (177,493)	\$ 55,869
Ending Net Assets	\$ 659,843	\$ 711,339	\$ 6,794	\$ 11,167	\$ 666,637	\$ 722,506

GOVERNMENTAL ACTIVITIES

Expenses decreased 40% in 2007 due to lower costs for instructional and support services mainly due to lower tuition for high school students. Revenues decreased 15% from 2006 to 2007 because of fewer grant awards and state aid.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities decreased by approximately 42% to \$14,034.00 and expenses decreased by 36%. Factors contributing to these results included:

- The number of students enrolled in the Midland School District declined in the 2006 and 2007 school years. Therefore, the number of meals served by the school's lunch program declined thus resulting in the decrease in revenue.
- The decrease in expenses was primary due to less food costs and employee wages & benefits.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

In FY 06, the General Fund lost \$33,274.00 and the Capital Outlay Fund lost \$9,153.00, both of which was better than planned, due to sound management of resources. The Special Education Fund lost \$82,483.00 due to raising costs of this program along with no tax levy. In FY 07, the Government Funds turned around, with the General Fund gaining \$126,022.00, the Capital Outlay Fund lost \$11,399.00, and Special Education gained \$920.00. This turn around was mainly attributable to restoring tax levies to Capital Outlay and Special Education funds and favorable tuition rates received from Kadoka School District for the High School Students. The School Lunch fund was supported by the General Fund by \$15,000.00 and \$10,000.00 for FY 07 and FY 06.

BUDGETARY HIGHLIGHTS

Over the course of the year, the School Board revised the School budget several times. These amendments fall into three categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

There were no significant budget changes or budget variances for FY06. In 2007, the General Fund spent \$72,000.00 less than budgeted, due to good management.

CAPITAL ASSET ADMINISTRATION

By the end of 2007, the School had invested in over \$217,000.00 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.)

Table A-3
Midland School District 27-2 – Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change
	6/30/2006	6/30/2007	6/30/2006	6/30/2007	
Land	\$ 5,240	\$ 5,240			\$ -
Buildings	192,403	146,270			(46,133)
Machinery and Equipment	75,043	62,583	3,509	3,202	(12,767)
Total Capital Assets (Net)	\$ 272,686	\$ 214,093	\$ 3,509	\$ 3,202	\$ (58,900)

No Capital Assets were purchased during FY06. In FY 07, two Dodge Caravans were purchased. Buildings were sold in both years in anticipation of our merger with Kadoka School.

LONG-TERM DEBT

At year-end the School had \$648.00 due on accrued leave. This is a decrease of 63% as shown on Table A-4 below.

Table A-4
MIDLAND SCHOOL DISTRICT - Outstanding Debt and Obligations

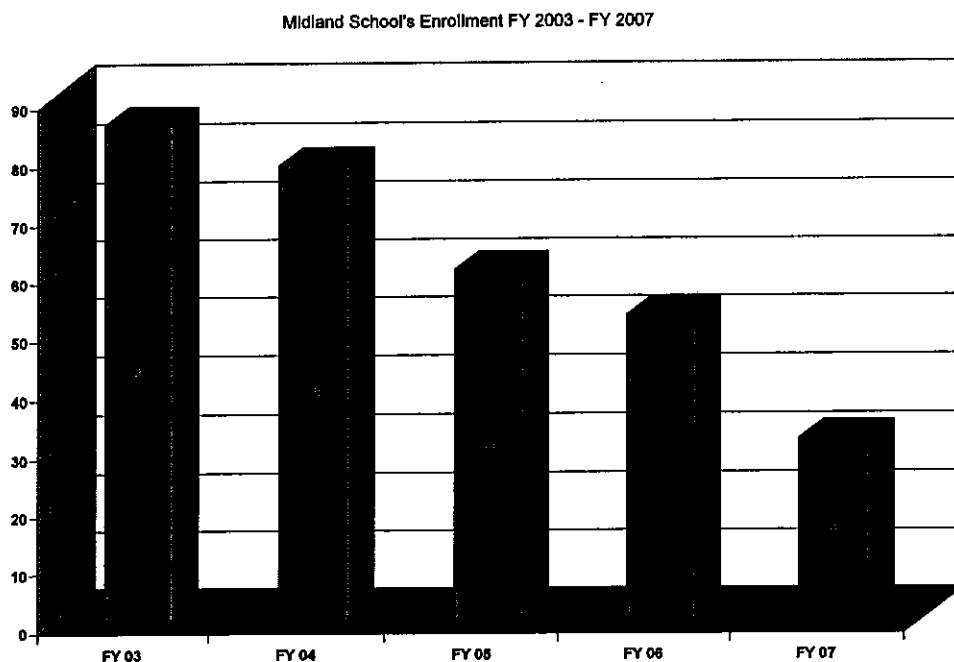
			Total Dollar Change	Total Percentage Change
	6/30/2006	6/30/2007		
Accrued Leave	\$ 1,760.00	\$ 648.00	\$ 1,112.00	63%
Total Outstanding Debt and Obligations	\$ 1,760.00	\$ 648.00	\$ 1,112.00	63%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

FY 2007 was the last year of operation for Midland School District 27-2. With declining enrollment, the Midland School Board voted to approve a reorganization plan with the Kadoka School District. Patrons of the Midland School District and Kadoka School District approved consolidating the two districts effective July 1, 2007. The newly formed district is known as Kadoka Area School District 35-2. At this time, the new district will continue to operate a K-8 facility at Midland.

Incentive funds of \$600/student will be paid to the new district in the second year of operation. Payment will be over a three year period as follows: \$300/student year two, \$200/student year three, \$100/student year four.

The school's enrollment for the last five years has been as follow:



CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Midland School's Business Office, 104 Main St., Midland, SD 57552.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$474,671	\$6,024	\$480,695
Taxes receivable	181,695	0	181,695
Accounts receivables	11,014	305	11,319
Inventories	0	1,636	1,636
Capital Assets:			
Land	5,240	0	5,240
Other capital assets, net of depreciation	208,853	3,202	212,055
TOTAL ASSETS	\$881,473	\$11,167	\$892,640
LIABILITIES:			
Payables	\$2,580	\$0	\$2,580
Deferred revenue	166,906	0	166,906
Noncurrent Liabilities:			
Due within one year	648	0	648
TOTAL LIABILITIES	170,134	0	170,134
NET ASSETS:			
Invested in capital assets	214,093	3,202	217,295
Restricted For:			
Capital outlay	169,007	0	169,007
Special education	47,526	0	47,526
Food service	0	7,965	7,965
Unrestricted	280,713	0	280,713
TOTAL NET ASSETS	711,339	11,167	722,506
TOTAL LIABILITIES AND NET ASSETS	\$881,473	\$11,167	\$892,640

The accompanying notes to financial statements
are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$230,758	\$0	\$71,567
Support services	273,590	0	0
Cocurricular activities	7,373	2,610	0
Total Governmental Activities	511,721	2,610	71,567
Business-type Activities:			
Food service	24,661	8,046	5,986
TOTAL	\$536,382	\$10,656	\$77,553

GENERAL REVENUES:

Real estate taxes

Gross receipt taxes

State aid

Unrestricted investment earnings

Other general revenues

TRANSFERS

Total general revenues and transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$159,191)	\$0	(\$159,191)
(273,590)	0	(273,590)
(4,763)	0	(4,763)
(437,544)	0	(437,544)
0	(10,629)	(10,629)
(\$437,544)	(\$10,629)	(\$448,173)
346,342	0	346,342
22,379	0	22,379
118,226	0	118,226
11,568	2	11,570
5,525	0	5,525
(15,000)	15,000	0
489,040	15,002	504,042
51,496	4,373	55,869
659,843	6,794	666,637
\$711,339	\$11,167	\$722,506

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$464,922	\$0	\$107,724
Support services	350,003	6,000	0
Cocurricular activities	31,366	8,346	0
Total Governmental Activities	846,291	14,346	107,724
Business-type Activities:			
Food service	38,613	12,658	11,664
TOTAL	<u>\$884,904</u>	<u>\$27,004</u>	<u>\$119,388</u>

GENERAL REVENUES:

Real estate taxes

Gross receipt taxes

State aid

Unrestricted investment earnings

Other general revenues

TRANSFERS

Total general revenues
and transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$357,198)	\$0	(\$357,198)
(344,003)	0	(344,003)
(23,020)	0	(23,020)
(724,221)	0	(724,221)
0	(14,291)	(14,291)
(\$724,221)	(\$14,291)	(\$738,512)
347,290	0	347,290
18,020	0	18,020
167,367	0	167,367
10,897	2	10,899
17,443	0	17,443
(10,000)	10,000	0
551,017	10,002	561,019
(173,204)	(4,289)	(177,493)
833,047	11,083	844,130
\$659,843	\$6,794	\$666,637

MIDLAND SCHOOL DISTRICT NO. 27-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$257,443	\$169,048	\$46,680
Imprest account	1,500	0	0
Taxes receivable-current	86,602	44,604	35,700
Taxes receivable-delinquent	13,731	579	479
Due from other governments	9,847	0	1,167
TOTAL ASSETS	\$369,123	\$214,231	\$84,026
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$1,160	\$620	\$800
Deferred revenue	100,333	45,183	36,179
TOTAL LIABILITIES	101,493	45,803	36,979
Fund Balances			
Unreserved:			
Undesignated	267,630	168,428	47,047
TOTAL FUND BALANCES	267,630	168,428	47,047
TOTAL LIABILITIES AND FUND BALANCE	\$369,123	\$214,231	\$84,026

The accompanying notes to financial statements are an integral part of this statement

Total
Governmental
Funds

\$473,171

1,500

166,906

14,789

11,014

\$667,380

\$2,580

181,695

184,275

483,105

483,105

\$667,380

MIDLAND SCHOOL DISTRICT NO. 27-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2007

Total Fund Balances-Government Funds	\$483,105
--------------------------------------	-----------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	214,093
---	---------

Tax revenue is not recorded in the funds statement until it is "available" to be spent on current obligations, but all taxes related to revenue intended to finance the current year are recorded as revenue in the government-wide financial statements.	14,789
---	--------

Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(648)</u>
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Net Assets-Governmental Funds	<u><u>\$711,339</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$264,472	\$42,159	\$33,710
Prior year's ad valorem taxes	9,649	82	72
Gross receipts taxes	22,379	0	0
Penalties and interest	2,689	41	34
Earnings on deposits:			
Interest earned	8,820	1,676	1,072
Cocurricular activities:			
Admissions	510	0	0
Other	2,100	0	0
Other revenues from local sources:			
Other	1,947	14,664	37
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	3,448	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	118,226	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through state	121	0	0
Restricted grants-in-aid received from federal government through state	42,946	6,139	22,482
Total Revenue	<u>\$477,307</u>	<u>\$64,761</u>	<u>\$57,407</u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$340,341

9,803

22,379

2,764

11,568

510

2,100

16,648

3,448

118,226

121

71,567

\$599,475

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$111,661	\$3,829	\$0
Junior high school	46,168	4,045	0
High school	3,530	0	0
Special Programs:			
Programs for special education	0	0	36,223
Educationally deprived	9,137	0	0
Support Services:			
Pupils-			
Health	100	0	0
Speech pathology	0	0	6,925
Student therapy	0	0	8,139
Instructional staff-			
Improvement of instruction	4,542	0	0
Educational media	55	0	0
General administration-			
Board of education	26,922	0	0
Executive administration	10,904	0	0
School administration-			
Office of principal	10,804	0	0
Business-			
Fiscal services	83,783	0	0
Operation and maintenance of plant	52,585	47,757	0
Pupil transportation	3,180	0	0
Other	1,196	179	0
Special Education:			
Administration	0	0	5,200

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$115,490

50,213

3,530

36,223

9,137

100

6,925

8,139

4,542

55

26,922

10,904

10,804

83,783

100,342

3,180

1,375

5,200

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Cocurricular activities:			
Male activities	\$357	\$0	\$0
Female activities	367	0	0
Transportation	3,070	0	0
Combined activitives	2,387	0	0
Capital outlay	0	20,350	0
Total Expenditures	<u>370,748</u>	<u>76,160</u>	<u>56,487</u>
Excess of Revenues over(under) Expenditures	106,559	(11,399)	920
Other Financing Sources (Uses):			
Sale of capital assets	34,463	0	0
Transfers-out	<u>(15,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	126,022	(11,399)	920
FUND BALANCE, JULY 1, 2006	<u>141,608</u>	<u>179,827</u>	<u>46,127</u>
FUND BALANCE, JUNE 30, 2007	<u><u>\$267,630</u></u>	<u><u>\$168,428</u></u>	<u><u>\$47,047</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$357

367

19,571

19,571

20,350

503,395

96,080

34,463

(15,000)

115,543

367,562

\$483,105

MIDLAND SCHOOL DISTRICT NO. 27-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net Changes in Fund Balances-Total Governmental Funds	\$115,543
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Amounts reported for governmental activities in the statement of activities are different because:

Tax revenue is not recorded in the funds statement until it is "available" to be spent on current obligations, but all taxes related to revenue intended to finance the current year are recorded as revenue in the government-wide financial statements.	(6,566)
---	---------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(9,438)
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The Statement of Activity reports the book value of disposed assets as a reduction of income from the sale of such assets. The funds only report the cash received as income.	(49,155)
---	----------

Payment of accrued leave is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<div style="border-top: 1px solid black; display: inline-block;">1,112</div>
---	--

Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$51,496</div>
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The accompanying notes to financials statements are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$346,713	\$0	\$0
Prior year's ad valorem taxes	914	0	0
Gross receipts taxes	18,020	0	0
Penalties and interest	943	0	0
Earnings on deposits:			
Interest earned	8,265	1,579	1,053
Cocurricular activities:			
Admissions	6,136	0	0
Other	2,210	0	0
Other revenues from local sources:			
Rentals	6,000	0	0
Other	5,796	8,658	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	2,742	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	167,367	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through the state	112	0	0
Restricted grants-in-aid received from federal government through state	93,113	0	14,611
Total Revenue	\$658,331	\$10,237	\$15,664

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$346,713

914

18,020

943

10,897

6,136

2,210

6,000

14,454

2,742

167,367

112

107,724

\$684,232

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$150,705	\$550	\$0
Junior high school	52,925	809	0
High school	165,163	2,478	0
Special Programs:			
Programs for special education	0	0	64,108
Educationally deprived	8,894	0	0
Support Services:			
Pupils-			
Health	70	0	0
Psychological	0	0	805
Speech pathology	0	0	3,553
Student therapy	0	0	15,367
Instructional staff-			
Improvement of instruction	71,342	0	0
Educational media	4,645	0	0
General administration-			
Board of education	24,380	0	0
Executive administration	17,955	0	0
School administration-			
Office of principal	37,050	0	0
Business-			
Fiscal services	70,907	0	0
Operation and maintenance of plant	54,670	10,953	0
Pupil transportation	5,551	0	0
Other	1,469	4,600	0
Special Education:			
Administration	0	0	14,314

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$151,255

53,734

167,641

64,108

8,894

70

805

3,553

15,367

71,342

4,645

24,380

17,955

37,050

70,907

65,623

5,551

6,069

14,314

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Outlay Fund	Special Education Fund
Cocurricular activities:			
Male activities	\$10,870	\$0	\$0
Female activities	5,458	0	0
Transportation	7,332	0	0
Combined activities	6,404	0	0
Total Expenditures	<u>695,790</u>	<u>19,390</u>	<u>98,147</u>
Excess of Revenues over(under) Expenditures	(37,459)	(9,153)	(82,483)
Other Financing Sources (Uses):			
Sale of capital assets	14,185	0	0
Transfers-out	<u>(10,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(33,274)	(9,153)	(82,483)
FUND BALANCE, JULY 1, 2005	<u>174,882</u>	<u>188,980</u>	<u>128,610</u>
FUND BALANCE, JUNE 30, 2006	<u><u>\$141,608</u></u>	<u><u>\$179,827</u></u>	<u><u>\$46,127</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$10,870

5,458

7,332

6,404

813,327

(129,095)

14,185

(10,000)

(124,910)

492,472

\$367,562

MIDLAND SCHOOL DISTRICT NO. 27-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances-Total Governmental Funds (\$124,910)

Amounts reported for governmental activities in the statement of
activities are different because:

Tax revenue is not recorded in the funds statement until it is
"available" to be spent on current obligations, but all taxes related
to revenue intended to finance the current year are recorded as
revenue in the government-wide financial statements. (1,280)

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which depreciation exceeded capital outlays in the current
period. (32,558)

The governmental funds report the net book value of disposed
assets as a reduction of income from the sale of such assets.
The funds only recognize the cash received from a sale
of fixed assets. (14,050)

Repayment of accrued leave is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets. (406)

Change in Net Assets of Governmental Activities (\$173,204)

The accompanying notes to financial statements are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
BALANCE SHEET-PROPRIETARY FUND
JUNE 30, 2007

	ENTERPRISE Fund
	<u>Food</u>
	Service
	<u>Fund</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$6,024
Accounts receivable	\$305
Inventory of supplies	150
Inventory of stores for resale	679
Inventory of donated food	807
Total Current Assets	<u>7,965</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	22,852
Accumulated depreciation	<u>(19,650)</u>
Total Noncurrent Assets	<u>3,202</u>
TOTAL ASSETS	<u><u>\$11,167</u></u>
LIABILITIES	
Current Liabilities	<u>\$0</u>
Total Liabilities	<u>0</u>
NET ASSETS:	
Invested in capital assets	3,202
Unrestricted net assets	<u>7,965</u>
Total Net Assets	<u>11,167</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$11,167</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>ENTERPRISE FUND</u>
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$7,972
To adults	74
Total Operating Revenue	<u>8,046</u>
Operating Expenses:	
Salaries	8,606
Employee benefits	5,854
Purchased services	2,022
Supplies	372
Cost of sales-purchased food	5,851
Cost of sales-donated food	1,649
Depreciation	307
Total Operating Expenses	<u>24,661</u>
Operating Income (Loss)	<u>(16,615)</u>
Nonoperating Revenue (Expense):	
Local Sources:	
Investment earnings	2
State Sources:	
Cash reimbursements	67
Federal Sources:	
Cash reimbursements	3,956
Donated food	1,963
Total Nonoperating Revenue (Expense)	<u>5,988</u>
Income (Loss) before Transfers	(10,627)
Transfer-in	<u>15,000</u>
Change in Net Assets	4,373
Net Assets-beginning	<u>6,794</u>
NET ASSETS-ending	<u><u>\$11,167</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>ENTERPRISE FUNDS</u>
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$7,741
Payments to suppliers	(8,045)
Payments to employees	<u>(15,337)</u>
Net Cash Provided (Used) by Operating Activities	(15,641)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	4,023
Transfers-in	15,000
Cash Flows from Investing Activities:	
Interest earnings	<u>2</u>
Net Increase in Cash and Cash Equivalents	<u><u>\$3,384</u></u>
Cash and Cash Equivalents at Beginning of Year	2,640
Cash and Cash Equivalents at End of Year	<u>6,024</u>
Net Increase in Cash and Cash Equivalents	<u><u>\$3,384</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Food Service Fund
<hr/>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(\$16,615)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	307
Commodities used	1,649
Changes in Assets and Liabilities:	
Accounts receivable	(305)
Inventories	200
Payables	(877)
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$15,641)</u></u>
Noncash Investing, Capital and Financing Activities:	
Value of commodities received	<u><u>\$1,963</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$9,256
To adults	3,402
Total Operating Revenue	<u>12,658</u>
Operating Expenses:	
Salaries	15,812
Employee benefits	6,835
Purchased services	912
Supplies	949
Cost of sales-purchased food	10,901
Cost of sales-donated food	2,765
Depreciation	439
Total Operating Expenses	<u>38,613</u>
Operating Income (Loss)	<u>(25,955)</u>
Nonoperating Revenue (Expense):	
Local Sources:	
Investment earnings	2
State Sources	
Cash reimbursements	137
Federal Sources:	
Cash reimbursements	8,805
Donated food	2,722
Total Nonoperating Revenue (Expense)	<u>11,666</u>
Income (Loss) before Transfers	<u>(14,289)</u>
Transfer-in	10,000
Change in Net Assets	<u>(4,289)</u>
Net Assets-beginning	<u>11,083</u>
NET ASSETS-ending	<u><u>\$6,794</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$12,658
Payments to suppliers	(12,924)
Payments to employees	(22,632)
	<hr/>
Net Cash Provided (Used) by Operating Activities	(22,898)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	8,942
Transfers-in (out)	10,000
Cash Flows from Investing Activities:	
Interest earnings	2
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	<hr/> (\$3,954) <hr/>
Cash and Cash Equivalents at Beginning of Year	6,594
Cash and Cash Equivalents at End of Year	<hr/> 2,640 <hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	<hr/> (\$3,954) <hr/>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS
	Food Service Fund
<hr/>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(\$25,955)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	439
Commodities used	2,765
Changes in Assets and Liabilities:	
Inventories	(162)
Payables	15
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$22,898)</u></u>
Noncash Investing, Capital and Financing Activities:	
Value of commodities received	<u><u>\$2,722</u></u>

The accompanying notes to financial statements are an integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$944</u>
Total Assets	<u><u>\$944</u></u>
 LIABILITIES:	
Amounts held for others	\$944
 NET ASSETS:	<u>0</u>
 Total Liabilities and Net Assets	<u><u>\$944</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR YEAR ENDED JUNE 30, 2007

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Interest earned	<u>\$5</u>
Total Additions	<u>5</u>
DEDUCTIONS:	<u>5,648</u>
Change in Assets	(5,643)
Net Assets-beginning	<u>5,643</u>
NET ASSETS-ending	<u><u>\$0</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR YEAR ENDED JUNE 30, 2006

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Interest earned	<u>8</u>
Total Additions	<u>8</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>0</u>
Total Deductions	<u>0</u>
Change in Assets	8
Net Assets-beginning	<u>5,635</u>
NET ASSETS-ending	<u><u>\$5,643</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Midland School District No. 27-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The school district participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the district.

b. Basis of Presentation, Basis of Accounting:

Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. These statements distinguish

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental,

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to accounted for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

Memorial Fund (a separate trust established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The district maintains agency funds to hold assets as an agent:

Class clubs (such as FFA, Seniors, Juniors, student council) and so on

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the 'current financial resources' measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the 'economic resources' measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Midland School District No. 27-2, the length of that cycle is sixty days. The revenues which are accrued at June 30, 2007 are for reimbursement grants.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The government business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expense to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged in this manner, expense reductions occur in the general fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2007 balance of capital assets for governmental activities includes approximately ten percent for which the costs were determined by estimates of the original costs. The total June 30, 2007 balance of capital assets for business-type activities includes approximately 25% for which cost were determined by estimates of the original cost. These estimated original costs were established by comparison to historical data of similar assets.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	ALL	-	-
Buildings	\$25,000	Straight-line	25-50 yrs
Machinery and Equipment:			
General	\$ 5,000	Straight-line	4-20 yrs
Food Service	\$ 100	Straight-line	12 yrs

Land, an inexhaustible capital asset, is not depreciated.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of accrued leave.

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

All interest expense on long-term debt is reported as a separate line on the "Statement of Activities."

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted: or "invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - in General, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued):

be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2007 the District's had no deposits in financial institutions that were exposed to custodial credit risk.

Investments

As of June 30, 2007, the School District had no investments.

Interest Rate Risk- The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

No material supply inventories were on hand as of June 30, 2007.

5. DEFERRED REVENUE:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

6. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

6. PROPERTY TAXES (continued):

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

7. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2007 is as follows:

	Balance <u>7/01/06</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/07</u>
Government Activities:				
Capital Assets not being depreciated				
Land	\$ 5,240	\$ -	\$ -	\$ 5,240
Capital Assets being depreciated				
Buildings	591,146	-	50,621	540,525
Improvements	5,325	-	-	5,325
Machinery and Equipment	<u>268,248</u>	<u>20,350</u>	<u>29,350</u>	<u>259,248</u>
Total	<u>864,719</u>	<u>20,350</u>	<u>79,971</u>	<u>805,098</u>
Less accumulated Depreciation:				
Buildings	398,748	11,225	15,713	394,260
Improvements	5,320	-	-	5,320
Machinery and Equipment	<u>193,205</u>	<u>18,563</u>	<u>15,103</u>	<u>196,665</u>
Total	<u>597,273</u>	<u>29,788</u>	<u>30,816</u>	<u>596,245</u>

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7. CHANGES IN CAPITAL ASSETS (continued):

	<u>Balance</u> <u>7/01/06</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/07</u>
Total capital assets being depreciated, net:	\$ 267,446	\$ (9,438)	\$ 49,155	\$ 208,853
Governmental activity capital assets, net:	\$ 272,686	\$ (9,438)	\$ 49,155	\$ 214,093
Business type activities:				
Machinery and Equipment	\$ 22,852	\$ -	\$ -	\$ 22,852
Less accumulated Depreciation	<u>(19,343)</u>	<u>307</u>	<u>-</u>	<u>(19,650)</u>
Business activities Capital assets, Net	<u>\$ 3,509</u>	<u>\$ (307)</u>	<u>\$ -</u>	<u>\$ 3,202</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 17,277
Support Services	11,319
Cocurricular Activities	<u>1,192</u>
	<u>\$ 29,788</u>
Business Type Activities:	
Food Service	<u>\$ 307</u>

A summary of the changes in capital assets for the year ended June 30, 2006 is as follows:

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>7/01/05</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/06</u>
Government Activities:				
Capital Assets not being depreciated				
Land	\$ 5,240	\$ -	\$ -	\$ 5,240
Capital Assets being depreciated				
Buildings	613,373	-	22,227	591,146
Improvements	5,325	-	-	5,325
Machinery and Equipment	<u>314,748</u>	<u>-</u>	<u>46,500</u>	<u>268,248</u>
Total	<u>933,446</u>	<u>-</u>	<u>68,727</u>	<u>864,719</u>
Less accumulated Depreciation:				
Buildings	\$ 393,712	13,213	8,177	398,748
Improvements	5,320	-	-	5,320
Machinery and Equipment	<u>220,360</u>	<u>19,345</u>	<u>46,500</u>	<u>193,205</u>
Total	<u>619,392</u>	<u>32,558</u>	<u>54,677</u>	<u>597,273</u>
Total capital assets being depreciated, net:	<u>314,054</u>	<u>(32,558)</u>	<u>14,050</u>	<u>267,446</u>
Governmental activity capital assets, net:	<u>\$ 319,294</u>	<u>\$ (32,558)</u>	<u>\$ 14,050</u>	<u>\$ 272,686</u>
Business type activities:				
Machinery and Equipment	\$ 22,852	\$ -	\$ -	\$ 22,852

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>7/01/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/06</u>
Less accumulated				
Depreciation	\$ (18,904)	\$ 439	\$ -	\$ (19,343)
Business activities				
Capital assets,				
Net	\$ 3,948	\$ (439)	\$ -	\$ 3,509

Depreciation expense was changed to functions as follows:

Governmental Activities:	
Instruction	\$ 18,884
Support Services	12,372
Cocurricular Activities	<u>1,302</u>
	<u>\$ 32,558</u>
Business Type Activities:	
Food Service	<u>\$ 439</u>

8. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	<u>6/30/05</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/07</u> <u>Balance</u>	<u>Due within</u> <u>One Year</u>
Government Activities:					
Accrued leave	\$ 1,354	\$ 648	\$ 1,354	\$ 648	\$ 648

Debt payable at June 30, 2007 comprised of accrued vacation pay. It will be paid by the General Fund.

9. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

9. RESTRICTED NET ASSETS (continued)

<u>Restricted For:</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$169,007
Special Education Fund	Law	47,526
Food Service	Law	<u>7,965</u>
Total Restricted Net Assets:		<u>\$224,498</u>

10. RETIREMENT PLAN

All employees, except for classified employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after threes of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also required the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$8,625, \$26,845, and \$30,041 respectively, equal to the required contributions each year.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

11. JOINT VENTURES

The school district participates in the Three Rivers Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts.

The members of the co-op and their relative percentage of participation in the co-op are the following school districts:

Midland	9%
White River	17%
Lyman	16%
Jones County	13%
Bennett County	21%
Kodoka	16%
Wood	<u>8%</u>
	<u>100%</u>

Separate financial statements for this joint venture are available from the Three Rivers Special Services Cooperative, Midland, South Dakota.

As of June 30, 2007, this joint venture had total net fund assets of \$630,456 and long-term debt of \$1,092.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2007, the school district managed its risks as follows:

Employee Health Insurance:

The School District joined the South Dakota School District Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

12. RISK MANAGEMENT (continued)

for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$500 per person up to \$1,250 per family. The plan also provides for coinsurance of 25 percent up to \$7,500. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance:

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota School Districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or types of coverage. The School District pays an annual premium to the pool to provide coverage for liability coverage of torts; property damage or theft, errors and omissions, boiler, vehicles and umbrella.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

12. RISK MANAGEMENT (continued)

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverages will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District carries a \$1,000 deductible for the above insurance.

The School District does not carry additional coverage to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation Insurance:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Worker's Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

12. RISK MANAGEMENT (continued)

percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2007, the pool's retained risk was \$300,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$700,000 for total coverage of \$1,000,000 per occurrence. The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the two years ended June 30, 2007, one claim was paid for unemployment benefits. At June 30, 2007, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

13. INTERFUND TRANSFERS

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</u>
From General Fund to Food Service Fund to subsidize operations	<u>\$ 15,000</u>	<u>\$ 10,000</u>

14. SUBSEQUENT EVENT:

The District has obtained approval by the S. D. Department of Education to reorganize as of July 1, 2007. The reorganization resulted in merging with the Kadoka School District. The new entity is called the "Kadoka Area School District No. 35-2."

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$258,128	\$258,128	\$264,472
Prior year's ad valorem taxes	200	200	9,649
Gross receipts taxes	9,500	9,500	22,379
Penalties and interest	800	800	2,689
Earnings on deposits:			
Interest earned	1,000	1,000	8,820
Cocurricular activities:			
Admissions	0	0	510
Other	300	300	2,100
Other revenues from local sources:			
Other	0	0	1,947
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	1,500	1,500	3,448
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	125,288	125,288	118,226
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through state	0	0	121
Restricted grants-in-aid received from federal government through state	31,899	31,899	42,946
Total Revenue	\$428,615	\$428,615	\$477,307

Variance
with Final
Budget

\$6,344

9,449

12,879

1,889

7,820

510

1,800

1,947

1,948

(7,062)

121

11,047

\$48,692

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$116,857	\$126,857	\$111,661
Junior high school	71,537	71,537	46,168
High school	4,205	4,205	3,530
Special Programs:			
Educationally deprived	9,353	9,353	9,137
Support Services:			
Pupils-			
Health service	220	220	100
Instructional staff-			
Improvement of instruction	4,703	4,703	4,542
Educational media	100	100	55
General administration-			
Board of education	35,550	35,550	26,922
Executive administration	15,065	15,065	10,904
School administration-			
Office of principal	12,865	12,865	10,804
Business-			
Fiscal services	75,110	86,610	83,783
Operation and maintenance of plant	50,870	53,370	52,585
Pupil transportation	4,500	4,500	3,180
Other	1,200	1,200	1,196
Cocurricular activities:			
Male activities	0	400	357
Female activities	0	400	367
Transportation	7,300	7,300	3,070
Combined activities	4,180	4,180	2,387
Contingencies	5,000	5,000	0
Amount transferred	0	(800)	0
 Total Expenditures	 418,615	 442,615	 370,748

<div>Variance with Final Budget</div>
\$15,196
25,369
675
216
120
161
45
8,628
4,161
2,061
2,827
785
1,320
4
43
33
4,230
1,793
5,000
(800)
71,867

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Excess of Revenues over (under) Expenditures	\$10,000	(\$14,000)	\$106,559
Other Financing Sources:			
Transfers-in	(10,000)	(15,000)	(15,000)
Sale of capital assets	0	0	34,463
Net Change in Fund Balance	0	(29,000)	126,022
FUND BALANCE, JULY 1, 2006	141,608	141,608	141,608
FUND BALANCE, JUNE 30, 2007	\$141,608	\$112,608	\$267,630

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance
with Final
Budget

(\$120,559)

0
34,463

155,022

0

\$155,022

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$45,776	\$45,776	\$42,159
Prior year's ad valorem taxes	0	0	82
Penalties and interest	0	0	41
Interest earned	0	0	1,676
Other	0	0	14,664
Revenues from Federal Sources:			
Restricted grants-in-aid received from federal government through the state	5,000	5,000	6,139
Total Revenue	50,776	50,776	64,761
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	6,500	6,500	3,829
Junior high school	6,500	6,500	4,045
Support Services:			
Business-			
Fiscal services	1,500	1,500	0
Operation and maintenance of plant	32,000	52,000	47,757
Pupil transportation	25,000	25,000	20,350
Other	2,500	2,500	179
Total Expenditures	74,000	94,000	76,160

Variance
with Final
Budget

(\$3,617)
82
41
1,676
14,664

1,139

13,985

2,671
2,455

1,500

4,243
4,650
2,321

17,840

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Net Change in Fund Balance	(\$23,224)	(\$43,224)	(\$11,399)
FUND BALANCE, JULY 1, 2006	<u>179,827</u>	<u>179,827</u>	<u>179,827</u>
FUND BALANCE, JUNE 30, 2007	<u>\$156,603</u>	<u>\$136,603</u>	<u>\$168,428</u>

The accompanying notes to required supplemental information are an
integral part of this schedule.

Variance
with Final
Budget

\$31,825

0

\$31,825

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
SPECIAL EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$36,621	\$36,621	\$33,710
Prior years ad valorem taxes	0	0	72
Penalties and interest	0	0	34
Interest earned	0	0	1,072
Other	0	0	37
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	11,673	11,673	22,482
Total Revenue	48,294	48,294	57,407
Expenditures:			
Instruction:			
Special Programs:			
Programs for special education	64,000	64,000	36,223
Support Services:			
Pupils-			
Speech pathology	7,500	7,500	6,925
Student therapy	12,800	12,800	8,139
Special Education:			
Administration	7,500	7,500	5,200
Total Expenditures	91,800	91,800	56,487
Net Change in Fund Balance	(43,506)	(43,506)	920
FUND BALANCE, JULY 1, 2006	46,127	46,127	46,127
FUND BALANCE, JUNE 30, 2007	\$2,621	\$2,621	\$47,047

The accompanying notes to required supplemental information are an
integral part of this schedule.

Variance
with Final
Budget

(\$2,911)

72

34

1,072

37

10,809

9,113

27,777

575

4,661

2,300

35,313

44,426

0

\$44,426

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$372,322	\$372,322	\$346,713
Prior year's ad valorem taxes	0	0	914
Gross receipts taxes	15,000	15,000	18,020
Penalties and interest	1,500	1,500	943
Earnings on deposits:			
Interest earned	5,000	5,000	8,265
Cocurricular activities:			
Admissions	5,000	5,000	6,136
Other	2,600	2,600	2,210
Other revenues from local sources:			
Rentals	7,200	7,200	6,000
Other	200	200	5,796
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	2,500	2,500	2,742
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	162,178	162,178	167,367
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through state	0	0	112
Restricted grants-in-aid received from federal government through state	102,342	102,342	93,113
Total Revenue	\$675,842	\$675,842	\$658,331

Variance
with Final
Budget

(\$25,609)

914

3,020

(557)

3,265

1,136

(390)

(1,200)

5,596

242

5,189

112

(9,229)

(\$17,511)

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

Expenditures:	Budgeted Amounts		Actual
	Original	Final	
Instruction:			
Regular Programs:			
Elementary	\$150,724	\$150,724	\$150,705
Junior high school	51,000	53,000	52,925
High school	197,245	197,245	165,163
Special Programs:			
Educationally deprived	23,970	24,770	8,894
Support Services:			
Pupils-			
Attendance and social work	2,000	2,000	0
Health service	220	220	70
Instructional staff-			
Improvement of instruction	77,587	77,587	71,342
Educational media	5,426	5,426	4,645
General administration-			
Board of education	30,706	30,706	24,380
Executive administration	21,611	21,611	17,955
School administration-			
Office of principal	35,800	35,800	37,050
Business-			
Fiscal services	72,620	72,620	70,907
Operation and maintenance of plant	61,194	61,194	54,670
Pupil transportation	7,100	7,100	5,551
Other	2,300	3,800	1,469
Cocurricular activities:			
Male activities	12,656	12,656	10,870
Female activities	6,736	6,736	5,458
Transportation	10,073	10,073	7,332
Combined activities	9,468	9,468	6,404
Contingencies	8,000	8,000	0
Amount transferred	0	(2,800)	0
 Total Expenditures	 786,436	 787,936	 695,790

Variance
with Final
Budget

\$19
75
32,082

15,876

2,000
150

6,245
781

6,326
3,656

(1,250)

1,713

6,524
1,549
2,331

1,786
1,278
2,741
3,064
8,000
(2,800)

92,146

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
Excess of Revenues over (under) Expenditures	(\$110,594)	(\$112,094)	(\$37,459)
Other Financing Sources (Uses):			
Sale of capital assets	\$0	\$0	\$14,185
Transfers-out	(10,000)	(10,000)	(10,000)
Net Change in Fund Balance	(120,594)	(122,094)	(33,274)
FUND BALANCE, JULY 1, 2005	174,882	174,882	174,882
FUND BALANCE, JUNE 30, 2006	\$54,288	\$52,788	\$141,608

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

(\$74,635)

\$14,185
0

88,820

0

\$88,820

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Interest Earned	\$0	\$0	\$1,579
Other	0	0	8,658
Total Revenue	0	0	10,237
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	4,000	4,000	550
Junior high school	3,000	3,000	809
High school	7,000	7,000	2,478
Support Services:			
Instructional staff-			
Educational media	500	500	0
Business-			
Fiscal services	2,300	2,300	0
Operation and maintenance			
of plant	24,000	24,000	10,953
Other	13,500	13,500	4,600
Total Expenditures	54,300	54,300	19,390
Net Change in Fund Balance	(\$54,300)	(\$54,300)	(\$9,153)
FUND BALANCE, JULY 1, 2005	188,980	188,980	188,980
FUND BALANCE, JUNE 30, 2006	\$134,680	\$134,680	\$179,827

The accompanying notes to required supplemental information are an
integral part of this schedule.

Variance
with Final
Budget

\$1,579

8,658

10,237

3,450

2,191

4,522

500

2,300

13,047

8,900

34,910

\$45,147

0

\$45,147

MIDLAND SCHOOL DISTRICT NO. 27-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
SPECIAL EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Interest earned	\$0	\$0	\$1,053
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	7,500	7,500	14,611
Total Revenue	7,500	7,500	15,664
Expenditures:			
Instruction:			
Special Programs:			
Programs for special education	67,577	75,077	64,108
Support Services:			
Pupils-			
Psychological	300	1,800	805
Speech pathology	7,000	7,000	3,553
Student therapy	11,000	17,000	15,367
Special Education:			
Administration	7,923	15,423	14,314
Total Expenditures	93,800	116,300	98,147
Net Change in Fund Balance	(86,300)	(108,800)	(82,483)
FUND BALANCE, JULY 1, 2005	128,610	128,610	128,610
FUND BALANCE, JUNE 30, 2006	\$42,310	\$19,810	\$46,127

The accompanying notes to required supplemental information are an
integral part of this schedule.

Variance
with Final
Budget

\$1,053

7,111

8,164

10,969

995

3,447

1,633

1,109

18,153

26,317

0

\$26,317

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

1. Budgets and Budgetary Accounting:

The school district followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayers input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in numbers 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district and may transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.

MIDLAND SCHOOL DISTRICT NO. 27-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board. No encumbrances were outstanding at year-end.
10. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
11. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that the GAAP statements report capital outlays as a separate line, while the budgetary statements report capital outlays in the budgetary function to which they relate.

MIDLAND SCHOOL DISTRICT NO. 27-2
SCHEDULE OF CURRENT FINDINGS
JUNE 30, 2007

FINDING NUMBER 2007-01

A reportable condition and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA: To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL RESPONSE: The School District management agrees with this finding. The School Board and Superintendent are responsible for the corrective action plan for this comment. This comment is a result of the size of the Midland School District No. 27-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Midland School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Midland School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures, and payroll functions continues to exist.

MIDLAND SCHOOL DISTRICT NO. 27-3
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

FINDING NO. 2005-01:

A material weakness was reported due to a lack of segregation of duties.

Status as of June 30, 2007:

The condition noted in the prior audit is still applicable.